

# **MINUTES**

## **Audit Committee of Roanoke City Council**

**Location:** Council Conference Room  
Noel C. Taylor Municipal Building, Room 451 South

**Date:** September 5, 2012

**Time:** 4:02 p.m. to 4:52 p.m.

**Attendees:** Court Rosen, Audit Committee Chair  
Ray Ferris, Audit Committee Member  
Sherman Lea, Audit Committee Member  
Drew Harmon, Municipal Auditor  
Dawn Hope Mullins, Assistant Municipal Auditor  
Pam Mosdell, Information Systems Auditor  
Ann Clark, Senior Auditor  
Ann Shawver, Director of Finance  
Chris Morrill, City Manager  
Sherman Stovall, Assistant City Manager  
Jody Lawson, Payroll & Systems Administrator  
Tim Spencer, Acting City Attorney

### **1. Call to Order:**

Mr. Rosen called the meeting to order at 4:02 pm.

### **2. City Council Expenditures Review:**

Mr. Harmon noted that city policy requires the Municipal Auditor to review City Council's expenditures annually. He noted that there were no issues noted in the review for the year ending June 30, 2012.

Mr. Lea commented that although the procedures can be cumbersome, the Clerk's office has done a good job ensuring the paper work is done correctly.

Mr. Rosen stated that it is important to continue to be sensitive about expenditures and that it is good to have the annual review.

The report was received and filed without objection.

### **3. Fleet Parts Report:**

Mr. Harmon stated that the results of the audit were positive and noted that the City had recently signed a new contract with vendor. The audit looked at service levels, cost savings, and compliance with the contract terms. Mr. Harmon noted that the auditors met with many of the first and second shift mechanics to get their perspective on parts service. Mechanics rated the parts service very good overall. Costs were more challenging to evaluate due to the many variables that affect total costs. The audit showed significant savings in personnel costs and confirmed that parts costs were approximately 55% of the retail rate. Auditors were able to verify compliance with the terms of the contract.

Mr. Morrill commented that challenging budgets in recent years due to the recession required deferring fleet purchases and increasing maintenance. This made the parts contract all the more critical.

Mr. Rosen noted that only minor variances were identified in Auditing's recalculation of contract payments based on parts purchased, management fees, and guaranteed profit. Mr. Harmon confirmed that this was a notable result and a very favorable finding.

The report was received and filed without objection.

### **4. Sheriff's Internal Controls:**

Mr. Harmon noted that the State requires an external audit firm to audit each locality's Sheriff's Office. The City engages Brown Edwards to perform audit procedures that the firm has confirmed with the Virginia Auditor of Public Accounts satisfies the State requirements. Mr. Harmon noted that there were no findings, but that the prior year suggestion to retain inmate orders for the canteen remained open. He stated that the Sheriff's Office retains the signed receipt from each inmate's order and that the Sheriff's Office, as well as the Auditing department, believes this is adequate.

The report was received and filed without objection.

### **5. IRS Update:**

Ms. Shawver referred the Committee to her letter summarizing the results of the IRS examination of the City's 2008 federal tax returns. She noted that she had updated the Committee in the past and that this letter would close out the matter. Ms. Shawver stated that the results from the audit were very good and resulted in a very small bill to the City.

Mr. Rosen commented that the letter was self-explanatory and congratulated Finance on the positive results.

The report was received and filed without objection.

## **6. Hotline Update:**

Mr. Harmon stated that this was the first update report for the hotline and that he would welcome any suggestions for improvements from the Committee. He noted that one (1) report had been referred to Human Resources and that another report was a concern from a parolee that had been referred to the Department of Justice. Six (6) reports are open and being investigated by Auditing. Two (2) reports were investigated, substantiated, and have been closed.

An audit report was not issued for the investigation into timely deposits since it did not involve potential fraud, waste or abuse. The investigation confirmed deposits were not timely and that the process has been changed to ensure timely deposits in the future.

Mr. Rosen invited Ms. Shawver to comment on behalf of Real Estate Valuation. Ms. Shawver stated that staff was not aware of the next day deposit requirement and is now depositing payments timely.

Mr. Lea asked about the report referred to the Department of Justice. Mr. Harmon confirmed that he had contacted one of the investigators and that the investigator had used the hotline to request additional information from the reporter. The reporter has not responded to the request for information. The case will remain open on the hotline system for 99 days.

Mr. Harmon referred the Committee to the Report of Investigation on Time Abuse. He noted that the report was carefully written to avoid revealing personal identifying information. He encouraged Committee members to provide any suggestions they might have for improving such reports.

Mr. Spencer felt it was important to note that the individual involved was spending multiple hours at home and then attempting to bill the City for overtime.

Mr. Harmon agreed and stated that auditors had observed the employee on one such day, which indicated the employee's intent to misrepresent his time worked.

Mr. Lea commented on wage and hour issues that can arise when non-exempt employees are issued company phones that make them accessible at home and away from the office. Time that may be counted as time worked can become an issue in some of these cases.

Mr. Spencer and Mr. Harmon responded that these complexities were considered when the City's policy for cell phones was developed and clarified that the duties of the employee investigated could not be performed by phone.

Mr. Ferris asked if the employee's personnel records listed the address as his residence. Mr. Harmon replied that the employee had listed his parent's address in his personnel file and not the apartment identified in the investigation.

Mr. Morrill noted that the employee worked for two (2) different departments and that they are considering contracting for this function.

Mr. Harmon noted that the report was filed through the internet by a citizen and that it proved to be very accurate. Mr. Ferris asked if reporters receive any response from auditors when they file a hotline report. Mr. Harmon stated that reporters are given a unique key code and password that enables them to log into the hotline and check on the status of their report. Auditing immediately acknowledges the report and asks reporters to check back periodically in case we have additional questions. The system also provides the ability to chat with reporters on-line.

Mr. Lea commented about the time that investigations can require, as one question leads to another. He also noted that as awareness of the hotline grows, it has the potential to consume a lot of audit time.

Mr. Rosen appreciated the care taken to exclude personal identifying information from the report. He commented on the importance of the time abuse issue and hopes that awareness will reduce occurrence of this type of issue.

Mr. Ferris commented that it was good to publicize when hotline reports result in fruitful investigations. It's important that the public know the system is in place and has netted results.

Mr. Rosen agreed that communicating issues identified through the hotline to employees would probably be beneficial.

Mr. Harmon noted that Auditing posts a comment in the hotline when the case is closed so the reporter can see the results of the investigation if they log in. Quarterly hotline reports are also public documents and awareness will likely grow over time.

The Committee briefly discussed time and attendance systems and the potential need to consider such systems in the future.

The report was received and filed without objection.

## **7. Audit Committee Annual Report:**

Mr. Harmon directed the Committee's attention to its work on formalizing investigation processes under Chapter 22 of the City Charter. He noted that he and Mr. Spencer have worked together on a framework for conducting investigations utilizing the powers in Chapter 22. Mr. Harmon anticipates draft procedures will be ready for Committee review by the end of

the year. The current draft of procedures would require a magistrate to approve subpoenas for records.

Mr. Ferris asked for clarification on the Council's authority to authorize investigations and to enforce subpoenas, the magistrate's role, and other checks and balances being contemplated.

Mr. Spencer stated that the Auditing department already has the right to all city records. The authority under Chapter 22 would be needed in cases when a vendor's records were needed and the vendor refused to provide them. If a vendor does not comply with a subpoena, they would be in contempt of court. Mr. Spencer noted that Lynchburg has a process in place that involves the magistrate, which helps provide independence.

The Committee discussed the application to constitutional offices, the historical use of Chapter 22, and other possible checks and balances. The Committee closed the discussion by acknowledging the need to develop a thoroughly vetted framework that ensures investigations are not impeded while also ensuring judicious use of investigative powers.

Mr. Harmon recognized the contributions of Mr. Lea in his capacity as Audit Committee Chair for the last six (6) years and thanked him for his service. He also acknowledged Dr. Trinkle's contributions as a Committee member from 2006 through 2012.

Mr. Lea commented that the experience had been a good one, that it afforded him an opportunity to learn a great deal about the audit process and city operations. He noted that there had been several challenging audits during his time on the Committee and that he felt they were handled well. He thanked the audit staff for their professionalism and good work. Mr. Lea believes the City is better for having an audit department and for its willingness to look at itself.

The report was approved without objection and will be filed with the City Council.

## **8. Quarterly Audit Plan:**

Mr. Harmon introduced a new format for audit planning that he hopes to update quarterly. The plan lists the projects closed the previous quarter, projects currently open and planned projects for the next three quarters. The plan will be updated each quarter based on the level of hotline activity and ongoing risk considerations.

Mr. Harmon briefly discussed the status of various open projects and the projects planned for the second quarter. The plan lists the audit projects planned for the City, the Transit Company and the School Division.

Mr. Harmon also discussed the goal of developing a Financial Condition Report that would use data from CAFRs and other published sources to monitor trends and to contrast the City's financial data with peers. He noted that staff had already invested considerable effort into

identifying key information and developing templates for the report. He believes that Council and management will find it to be a useful tool in addition to the CAFR and budget.

Mr. Morrill noted that the City recently participated in a GFOA financial management self-assessment tool for local governments. As a result of that assessment, the City is working on a long term financial plan that extends beyond capital and debt planning into operations. He also mentioned that in 2010 the Department of Management & Budget and the Department of Finance completed the ICMA Trend Indicators report which uses information from the CAFR and other sources.

Mr. Rosen asked about the process for planning school audits. Mr. Harmon responded that the plan is developed based on input from his office, the school administration and the School Board. Common considerations are the time since the last audit, prior findings, and significant changes in management.

Mr. Lea asked about the scope of the Athletics audit at the School Division. Mr. Harmon responded that Auditing had looked at athletic revenues and expenses when the School Division created a separate fund for Athletics. At that time, audit identified a need for better tracking of athletics related assets such as pitching machines, refrigerators, audio/visual equipment, etc. A new asset tracking system has been implemented and auditing will be checking to see that all the assets have been entered into the system.

There being no further questions or suggestions from the Committee; the plan was received and filed without objection.

**Other Business:**

None

**Adjournment:**

The meeting was adjourned at 4:52 p.m.

Drew Harmon, CPA, CIA  
Municipal Auditor  
Audit Committee Secretary